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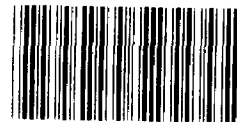
REPORT BY THE

Comptroller General

OF THE UNITED STATES

9383

Audit Of The Stationery Revolving Fund For Fiscal Year Ended June 30, 1978



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Rept 1

GGD-79-22
MARCH 13, 1979



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114862

The Honorable Edmund L. Henshaw, Jr.
Clerk of the House of Representatives

Dear Mr. Henshaw:

We have audited the House of Representatives Stationery Revolving Fund for the fiscal year ended June 30, 1978, pursuant to your April 14, 1978, request.

GENERAL COMMENTS

The Stationery Revolving Fund, established by the July 17, 1947, act (2 U.S.C. 46b-1), is administered by the Office Supply Service under the Clerk of the House of Representatives' jurisdiction, and is subject to the rules and regulations of the Committee on House Administration. The Office Supply Service furnishes House Members, committees, departments, and officers with stationery and supplies at cost (exclusive of salaries and other operating expenses incurred in operating the revolving fund).

Members' accounts

Funds appropriated to the House of Representatives for Members' stationery allowances are transferred to the Stationery Revolving Fund. Each Member is provided \$6,500 for each regular session of the Congress to purchase stationery and other supplies for official purposes. Incoming Members serving less than a full session receive a pro rata amount. A Member may withdraw a sum not to exceed \$1 in cash from the stationery allowance each regular session of Congress.

During the first session of the 95th Congress, a Member could elect to transfer unexpended funds from the stationery account to certain other allowances, e.g., travel, computer services, and district office rental, or to transfer funds from the other allowances to the Member's stationery account.

Effective with the second session of the 95th Congress, transfers from and to the Stationery Revolving Fund were discontinued, except for those associated with 1977 obligations.

Other accounts

Purchases by committees, departments, and officers must be approved by the Chairman, Committee on House Administration. The Stationery Revolving Fund is reimbursed for such purchases.

INVENTORY MANAGEMENT

Need to write off obsolete merchandise

The stock of Olivetti toner, concentrate, and paper costing \$835 is obsolete and is not in a saleable condition. The assistant chief stated that the merchandise became obsolete about 2 years ago when congressional offices stopped using the Olivetti machines.

We recommend that the Clerk of the House authorize the Chief, Office Supply Service, to (1) write off the Olivetti stock due to obsolescence and (2) properly dispose of this merchandise.

Action taken to change procedures for House Recording Studio film purchases

At June 30, 1978, the Stationery Revolving Fund had film costing \$4,407 stored at and controlled by the House Recording Studio. The Office Supply Service acquired the film and recorded it on its books for accounting purposes. House Recording Studio personnel periodically sent the Office Supply Service a record of usage and the charges to be made to Member's accounts. Under these procedures, however, the Office Supply Service could not be sure whether the usage and charges were proper without performing a physical inventory of the film. Because the House Recording Studio was both storing and using the film and the Office Supply Service could not reasonably control this item, we proposed a new procedure under which the Studio would pay for the film when purchased. The Chief, Office Supply Service, agreed, and on July 28, 1978, the House Recording Studio paid for the value of the film in the Stationery Revolving Fund accounts at June 30, 1978.

EQUIPMENT ACCOUNTING

During August 1977 the Office Supply Service began installation of a minicomputer designed to encompass all phases of Office Supply Service operations. The computer and related equipment costing \$134,948 were purchased during fiscal year 1978 with Stationery Revolving Fund moneys, and an equipment account and a depreciation policy were established to account for the equipment and to allocate the costs to operations. The equipment is being depreciated on the basis of a 10-year life, using the straight line method, with no salvage value. Based on the authorizations and dates of payment, the depreciation charges for fiscal year 1978 were \$2,862.

COMPUTER CONTROLS

Because the computer system was in the testing phase, we did not evaluate its overall effectiveness as part of this year's audit. However, we did use certain computer-produced data during our tests of inventories and sales. The following comments concern several refinements which would provide more effective controls over sales and inventories.

Sales control procedures

To improve control over customer billings, the Office Supply Service should establish more effective procedures for reconciling daily sales tickets with the sales data reported by the computer and for identifying errors in the computer reports.

Analysis of 3 days' sales transactions showed that (1) the computer system did not provide a record of all transaction numbers or report accurate daily sales data, (2) the manual accounting procedures used to verify that all sales tickets were accounted for and that all sales were billed were inadequate, and (3) the sequential file of sales tickets was incomplete.

The computer assigned transaction numbers for several purposes, such as sales tickets, special orders, and receiving reports. However, because separate groups of numbers were not used for each purpose, the sales tickets were not

numbered consecutively. Also, no record was kept of which numbers were used for each purpose. Further, the daily sales reports did not provide an accurate count of a day's sales tickets or the amount of sales.

Because of the inadequate sales ticket control and the absence of accurate daily sales report data, the Office Supply Service staff could not always reconcile the sales tickets with the daily sales data reports. As a result, there was inadequate assurance that all sales were being billed to customers. No steps were being taken to identify the reasons for the inaccurate sales data being reported by the computer.

The Chief, Office Supply Service, told us that after we completed our review, the manual procedures had been revised to provide improved sales controls and complete accounting for all sales tickets. However, we subsequently noted that the Office Supply Service staff was still unable to reconcile the daily sales data reported by the computer with the daily sales tickets.

The Chief also stated that he is working with the House Information System computer group to revise the computer program to provide better control of sales tickets and accurate sales data reports.

We believe the Chief, Office Supply Service, should improve the control over sales transactions by (1) continuing his efforts to have the computer program revised so that the system provides sequential numbering of all sales tickets and accurate sales data reports and (2) establishing manual procedures in the interim to assure that the daily sales data is reconciled with the daily sales tickets. In addition to improving the control over customer billing, the interim procedures should aid in identifying the reasons for the inaccurate computer reports.

Inventory control

We also found two inventory valuation and control problems:

- Stock transfers were not always documented and some inventory transfers from the warehouses to the stock-room or sales floor were not recorded. Because the

computer would not accept a sales transaction unless the item was recorded as being available at the stockroom or sales floor, it rejected certain sales. After the completion of our review, the Chief, Office Supply Service, took steps to establish transfer documents for use in recording the movement of merchandise between storage facilities and the stockroom.

--A secondary source of Stationery Revolving Fund net income is trade discounts on items such as pens and xerox paper, which are not passed on to customers. These discounts were not recorded during the period covered by our audit. However, the system has since been revised to record the amount of these trade discounts.

CHANGE IN STATIONERY REVOLVING FUND FINANCING

The Second Supplemental Appropriations Act, 1978 (P.L. 95-355, dated Sept. 8, 1978) provided that the portion of Members' stationery allowance account representing 1978 Legislative Branch Appropriation Act funds remaining at September 30, 1978, would become working capital of the Revolving Fund as of October 1, 1978. After September 30, 1978, Members' stationery purchases will be charged against their consolidated allowance account and the Stationery Revolving Fund "Allowance due Members" account will be closed.

The "Allowance due Members" account consists of funds appropriated for both fiscal years 1977 and 1978. Therefore, the Chief, Office Supply Service, should take the necessary steps to determine the amount of 1978 funds to be capitalized and the amount of 1977 funds to be set aside for return to the U.S. Treasury.

To assist the Chief in determining these amounts, we have segregated the balances in the "Allowances due Members" account at June 30, 1978, by fiscal year funds. (See sch. 4.)

SCOPE OF AUDIT

We made our audit in accordance with the Comptroller General's standards for auditing financial transactions,

accounts, and reports of governmental activities. These standards include generally accepted auditing standards. Our examination included a review of operations and of applicable Federal laws, and such test of the accounting records and such other auditing procedures as we considered necessary.

OPINION ON FINANCIAL STATEMENTS

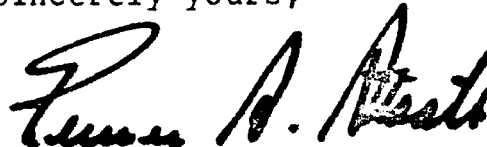
We prepared comparative statements of assets and liabilities (sch. 1), operations and retained income (sch. 2), and changes in financial position (sch. 3) from records of the Office Supply Service. Appropriations to the House of Representatives cover salaries and other operating expenses of the Office Supply Service and are not included as expenses in computing the net income of the Stationery Revolving Fund.

In our opinion the accompanying financial statements, which were prepared on a basis consistent with that of the preceding year and in accordance with the financial arrangements described above, present fairly the financial position of the Stationery Revolving Fund at June 30, 1978, and June 30, 1977; the results of its operations; and the changes in its financial position for the fiscal years then ended.

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We are sending a copy of this report to the Chairman, Committee on House Administration.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James A. Attest". The signature is fluid and cursive, with the first name "James" and last name "Attest" clearly distinguishable.

Comptroller General
of the United States

SCHEDULES

HOUSE OF REPRESENTATIVES
STATIONERY REVOLVING FUND
COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 1978, AND 1977

	<u>1978</u>	<u>1977</u>
<u>ASSETS</u>		
CASH:		
In U.S. Treasury	\$1,922,108	\$1,357,553
ACCOUNTS RECEIVABLE:		
Committees, officers		
of the House, and		
others	\$ 60,636	\$ 62,352
Members' stationery		
accounts overdrawn	-	474
Vendors	<u>1,593</u>	<u>2,623</u>
	62,229	65,449
MERCHANDISE INVENTORY,		
AT COST	901,608	699,193
EQUIPMENT	134,948	
LESS ACCUMULATED DEPRECIATION	<u>2,862</u>	<u>132,086</u>
		-
Total assets	<u>\$3,018,031</u>	<u>\$2,122,195</u>
<u>LIABILITIES AND RETAINED INCOME</u>		
ACCOUNTS PAYABLE (note a):		
Vendors	\$183,864	\$298,757
Committee and others	<u>1,335</u>	<u>-</u>
	\$ 185,199	\$ 298,757
AMOUNT DUE MEMBERS (sch. 4)	2,486,753	1,505,611
ALLOWANCE APPROPRIATED BUT NOT ALLOTTED	7,938	8,467
RETAINED INCOME (sch. 2)	<u>338,141</u>	<u>309,360</u>
Total liabilities and retained income	<u>\$3,018,031</u>	<u>\$2,122,195</u>

a/Obligations for undelivered orders amounted to \$360,980.51 at June 30, 1978, and \$367,949.67 at June 30, 1977.

GAO note: Our opinion on this statement appears on p. 6 of the letter.

HOUSE OF REPRESENTATIVES
STATIONERY REVOLVING FUND
COMPARATIVE STATEMENT OF OPERATIONS
AND RETAINED INCOME FOR FISCAL YEARS
ENDED JUNE 30, 1978, AND 1977

	1978			1977		
	<u>Merchandise</u>	<u>Services</u>	<u>Combined</u>	<u>Merchandise</u>	<u>Services</u>	<u>Combined</u>
NET SALES:						
Members	\$2,280,390	\$174,913	\$2,455,303	\$2,394,710	\$396,394	\$2,791,104
Committees, Officers of the House, and others	<u>1,229,731</u>	<u>9,958</u>	<u>1,239,689</u>	<u>836,029</u>	<u>10,605</u>	<u>846,634</u>
Total	<u>3,510,121</u>	<u>184,871</u>	<u>3,694,992</u>	<u>3,230,739</u>	<u>406,999</u>	<u>3,637,738</u>
COST OF SALES:						
Beginning inventory (note a)	699,193	-	699,193	773,854	-	773,854
Purchases less re- turns and discounts	<u>3,680,741</u>	<u>184,871</u>	<u>3,865,612</u>	<u>3,127,404</u>	<u>406,999</u>	<u>3,534,403</u>
Total	4,379,934	184,871	4,564,805	3,901,258	406,999	4,308,257
Less ending inventory (note a)	<u>901,608</u>	<u>-</u>	<u>901,608</u>	<u>699,193</u>	<u>-</u>	<u>699,193</u>
Cost of sales (note b)	<u>3,478,326</u>	<u>184,871</u>	<u>3,663,197</u>	<u>3,202,065</u>	<u>406,999</u>	<u>3,609,064</u>
INCOME BEFORE DEPRECIATION	31,795		31,795	28,674		28,674
DEPRECIATION EXPENSE (note c)	<u>2,862</u>		<u>2,862</u>	<u>-</u>		<u>-</u>
NET INCOME FOR THE PERIOD (note d)	<u>\$ 28,933</u>	<u>\$ -</u>	<u>\$ 28,933</u>	<u>\$ 28,674</u>	<u>\$ -</u>	<u>\$ 28,674</u>
RETAINED INCOME:						
Balance beginning of period			309,360			\$ 280,686
Transfer to cover bad debt loss			-152			-
Net income for the period			<u>28,933</u>			<u>28,674</u>
Balance end of period (sch. 1)			<u>\$ 338,141</u>			<u>\$ 309,360</u>

a/Amount adjusted on the basis of purchase prices less trade discounts.

b/Includes obsolete and damaged merchandise written off during 1978 of \$2,536.49 (\$2,490.41 in 1977).

c/Depreciation is computed using straight line, 10-year life, no salvage value.

d/Salaries of \$472,008 (\$426,498 in 1977), employee benefits, and other operating expenses of the Office Supply Service were provided under separate appropriations for the House of Representatives and Architect of the Capitol which were not required to be included as expenses in determining net income.

GAO note: Our opinion on this statement appears on p. 6 of the letter.

HOUSE OF REPRESENTATIVESSTATIONERY REVOLVING FUNDCOMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITIONFOR THE FISCAL YEARS ENDED JUNE 30, 1978, AND 1977

	<u>1978</u>	<u>1977</u>
FUNDS PROVIDED:		
Sales:		
Members	\$2,280,390	\$2,394,710
Committees, officers of the House, and others	1,229,731	836,029
Services:		
Members	174,913	396,394
Committees, officers of the House, and others	9,958	10,605
Appropriations for stationery allowances	2,853,500	2,853,500
Transfer from allowances and expenses	1,692	-
Funds returned by outgoing Members	1,096	22,384
Decrease in working capital	<u>103,834</u>	<u>-</u>
Total	<u>6,655,114</u>	<u>6,513,622</u>
FUNDS APPLIED		
Cost of sales	\$3,478,326	\$3,202,065
Cost of services	184,871	406,999
Appropriations allotted	2,856,817	2,871,917
Purchase of equipment	134,948	-
Writeoff of bad debt	152	-
Increase in working capital	<u>-</u>	<u>32,641</u>
Total	<u>\$6,655,114</u>	<u>\$6,513,622</u>

ANALYSIS OF CHANGES IN WORKING CAPITAL

	<u>Increase or decrease (-) in working capital</u>	<u>1978</u>	<u>1977</u>
WORKING CAPITAL CHANGES:			
Cash in U.S. Treasury	\$564,555	\$380,339	
Committees, officers of the House, and others	-1,716	-19,828	
Members' stationery accounts overdrawn	-474	-605	
Vendors	-1,030	-4,411	
Inventory	\$202,415	\$-74,661	
Accounts payable	113,558	-88,009	
Allowance due Members	-981,142	-160,184	
INCREASE OR DECREASE (-) IN WORKING CAPITAL	<u>\$-103,834</u>	<u>\$ 32,641</u>	

GAO note: Our opinion on this statement appears on p. 6 of the letter.

HOUSE OF REPRESENTATIVESSTATIONERY REVOLVING FUNDSTATEMENT OF MEMBERS' STATIONERY ACCOUNTSFOR THE FISCAL YEAR ENDED JUNE 30, 1978

AMOUNT DUE MEMBERS AT JULY 1, 1977		\$1,505,611
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ADDITIONS:

Legislative Branch Appropriation Act, 1978 (P.L. 95-94) for 2nd Session, 95th Congress	\$2,853,500	
Transfer from allowances and expenses account	1,692	
Legislative Branch Appropriations-- previously not allotted	529	
Transfer from retained income account	152	
Members' cash deposits	267,363	
Members' transfers from other allowances	<u>498,252</u>	<u>3,621,488</u>
Total available		<u><u>5,127,099</u></u>

DEDUCTIONS:

Members' stationery purchases	2,280,390	
Members' authorized services	174,913	
Decrease in balance of Members' stationery accounts overdrawn	474	
Members' transfers to other allowances	<u>184,569</u>	<u>2,640,346</u>

AMOUNT DUE MEMBERS AT JUNE 30, 1978		<u><u>\$2,486,753</u></u>
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AMOUNT DUE MEMBERS AT JUNE 30, 1978BY FUNDING SOURCE

Fiscal year 1977 appropriation	\$ 483,005
Fiscal year 1978 appropriation	<u>2,003,748</u>
Total	<u><u>\$2,486,753</u></u>

GAO note: Our opinion on this statement appears on p. 6 of the letter.

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